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UNITED STATES OF AMERICA BEFORE THE FEDERAL TRADE COMMISSION



In	the	Matter	of
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REALCOMP II LTD.,

a corporation.

Docket No. 9320

Public

TESTIMONY REGARDING SUPPOSED JUSTIFICATIONS FOR REALCOMP'S

RULES AND POLICIES

Bureau of Competition Federal Trade Commission 601 New Jersey Avenue, NW Washington, D.C., 20580 sgates@ftc.gov (202) 326-3711 Facsimile: (202) 326-3496

Dated: May 18, 2007

UNITED STATES OF AMERICA BEFORE THE FEDERAL TRADE COMMISSION

In the Matter of

REALCOMP II I	L TD.,	De	ocket No. 9320	
a corporati	ion.	<u>Pı</u>	<u>ıblic</u>	
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COMPLAINT	COUNSEL'S MEMORAN	IDUM IN SUPPO	RT OF ITS MOTION	[<i>IN</i>
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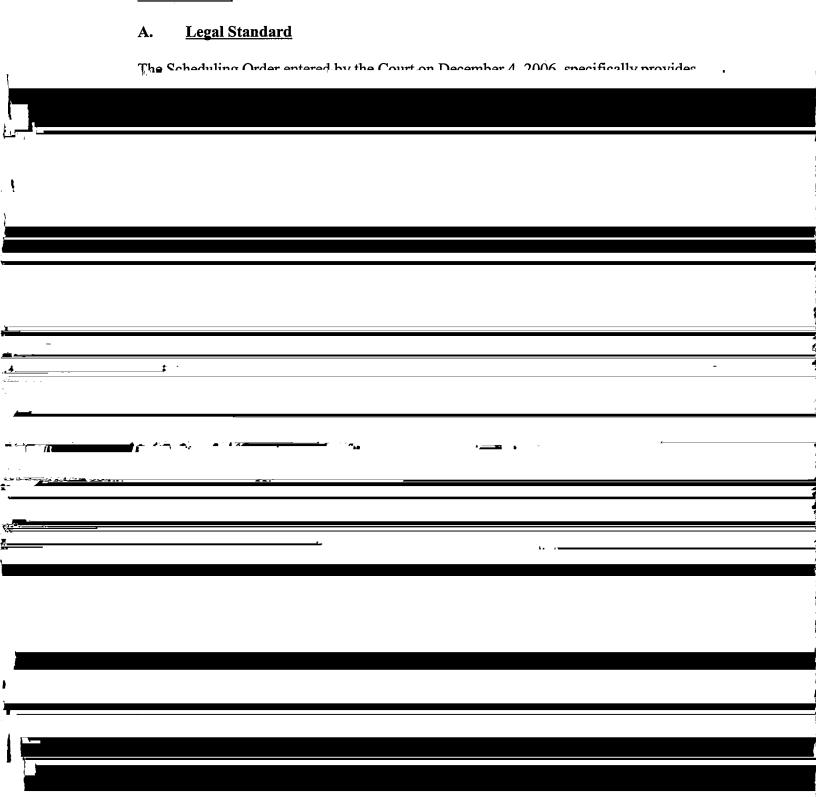
REGARDING SUPPOSED JUSTIFICATIONS FOR REALCOMP'S RULES AND POLICIES

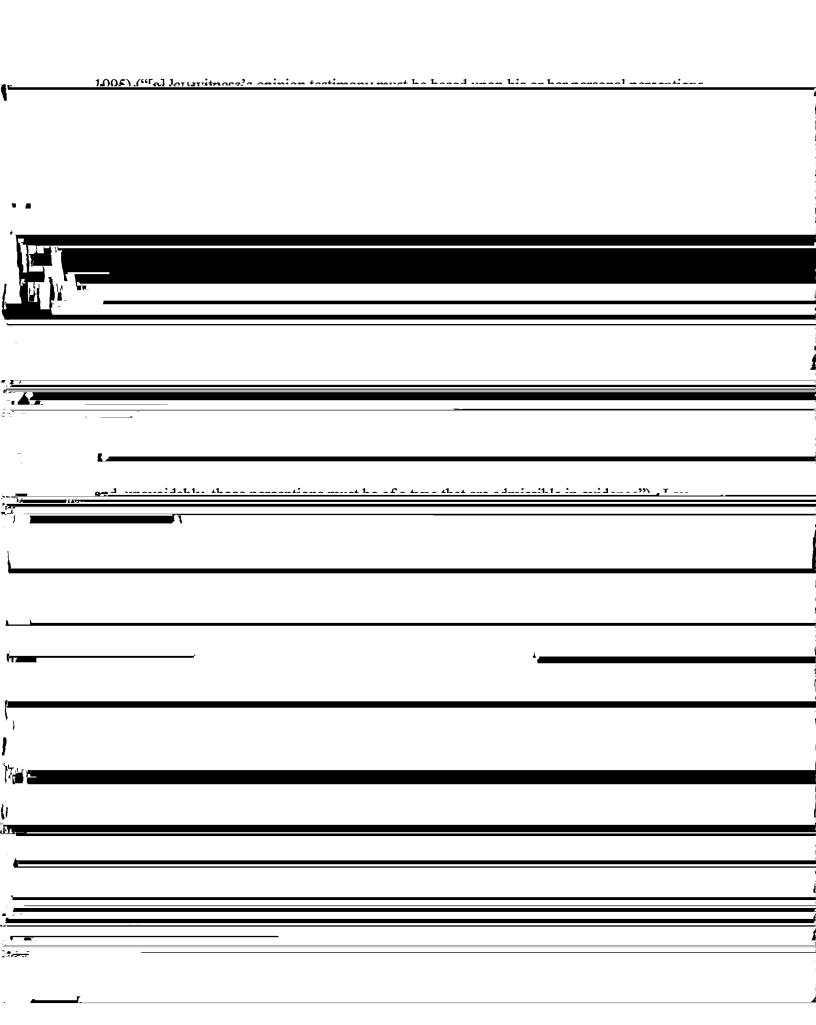
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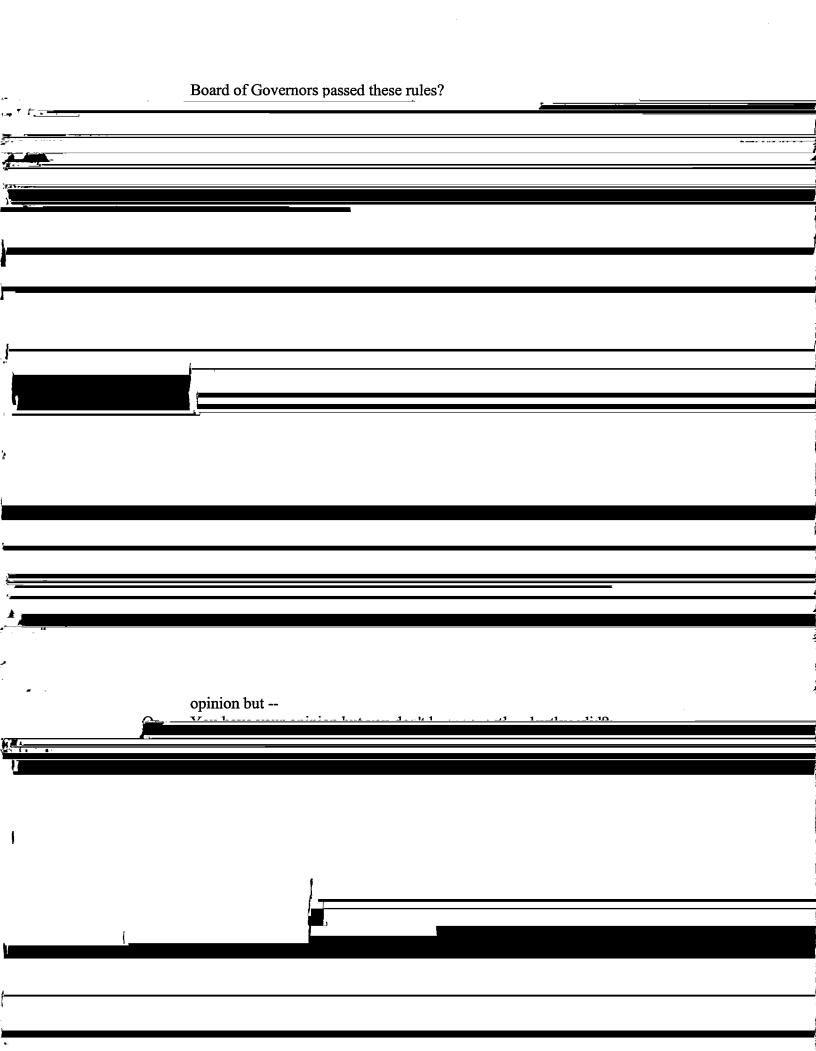
witnesses are also mere post-hoc rationales for the Polices, devoid of any evidentiary value.

Accordingly, Complaint Counsel seek an Order precluding such testimony at the hearing of this matter or by deposition.¹

II. ARGUMENT







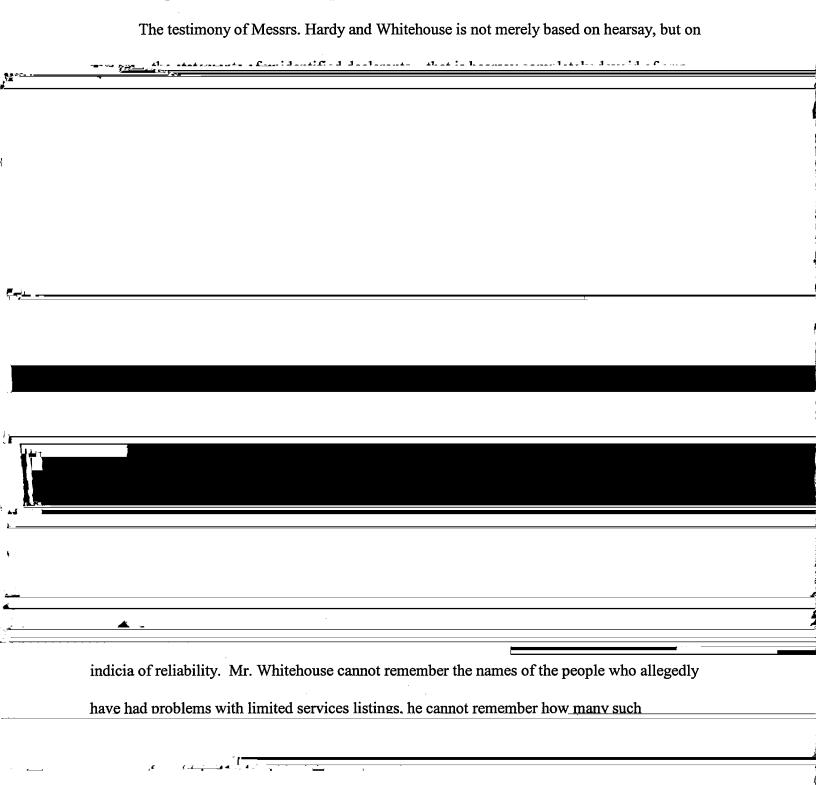
C. The Witnesses Have No Personal Knowledge of Any Alleged Problems Supporting the Policies.

	Not only do these three witnesses lack any personal knowledge of the reasons why
·	Prolonne adapted the Delicies there also admitted by Instrumental Instrumental Assertados of the
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	supposed problems upon which their opinions are based. Courts have consistently rejected the
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	Dec

I just don't know. A.

- A. No.
- Q. And from whom did you learn the reasons for the rules?
- A. Oh, I don't know specifically. We talked about it at the board of governors meeting. I don't remember who it was. I mean it was general conversation amongst a lot of us.

Gleason Dep. at 24:8-25:2; Hardy Dep. at 102:6-102:21, 103:10-103:18.

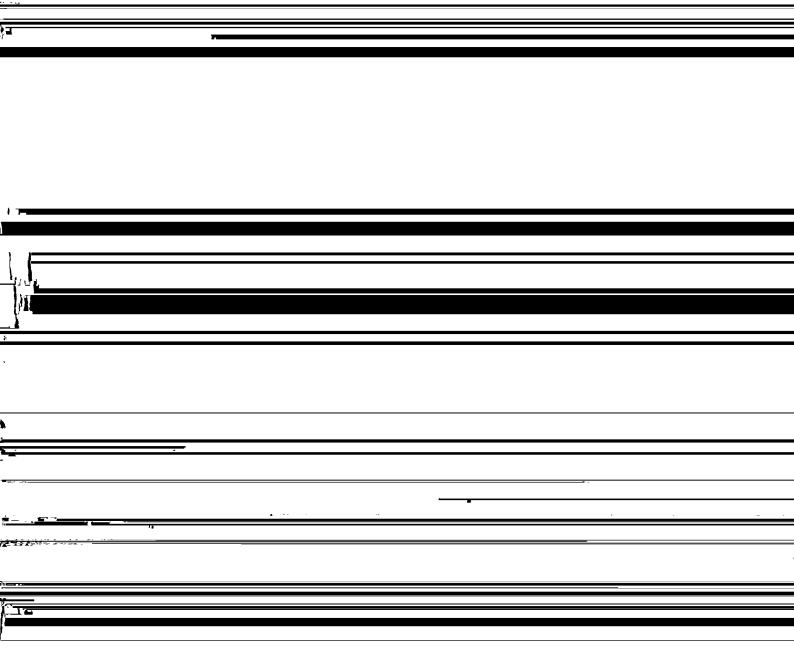


	1986), or whether their opinions are based on statements containing multiple levels of hearsay.
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(4th Cir. 2000), for example, it was held to be reversible error to admit into evidence statements in a report compiled by a third party retained to offer opinions in connection with the litigation because such statements lack any indicia of reliability or trustworthiness.

Fact Witnesses May Not Provide Expert Testimony. E.

The opinion testimony of Gleason, Hardy and Whitehouse - based entirely on



Realcomp's Policies.

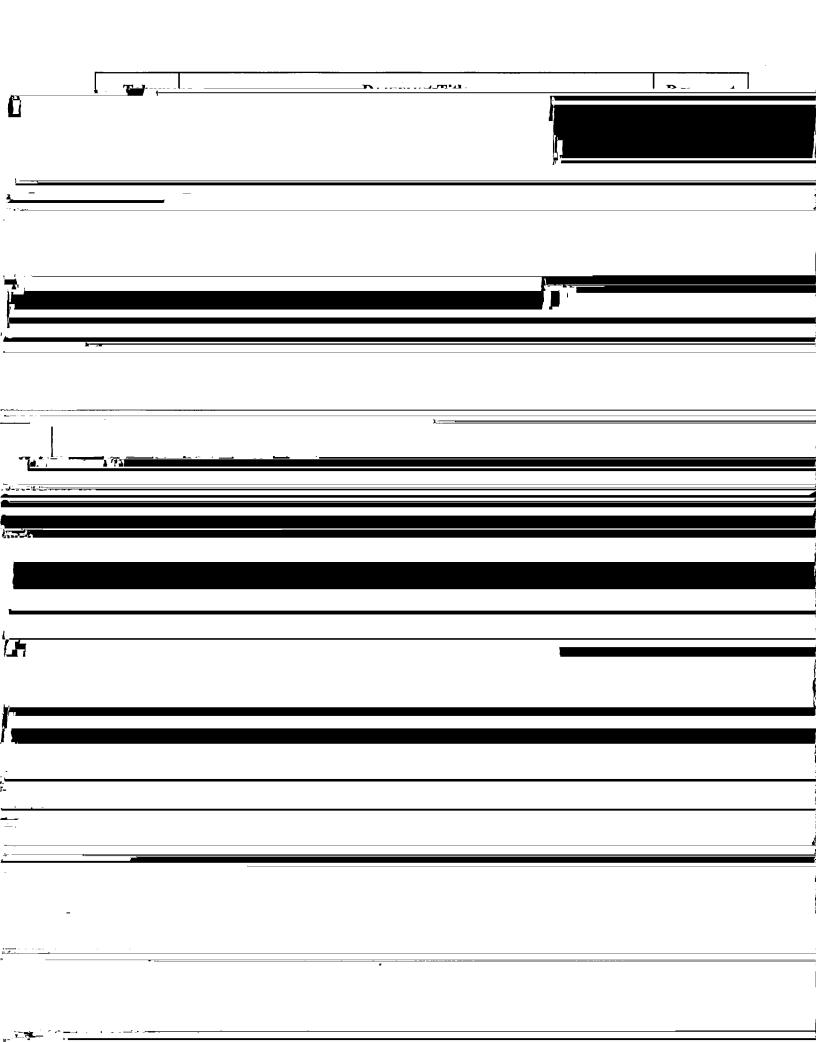
Dated: May 18, 2007

Respectfully submitted,

Christopher Renner Complaint Counsel

UNITED STATES OF AMERICA BEFORE THE FEDERAL TRADE COMMISSION

In the Matter of	
REALCOMP II LTD.,	Docket No. 9320
a corporation.	<u>Public</u>
DECLARATION OF PE	EGGY BAYER FEMENELLA
I, Peggy Bayer Femenella, make the fo	ollowing statement:
1. I am an Attorney in the Bureau of Con as Complaint Counsel in this matter.	npetition of the Federal Trade Commission. I serve
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UNITED STATES OF AMERICA BEFORE THE FEDERAL TRADE COMMISSION

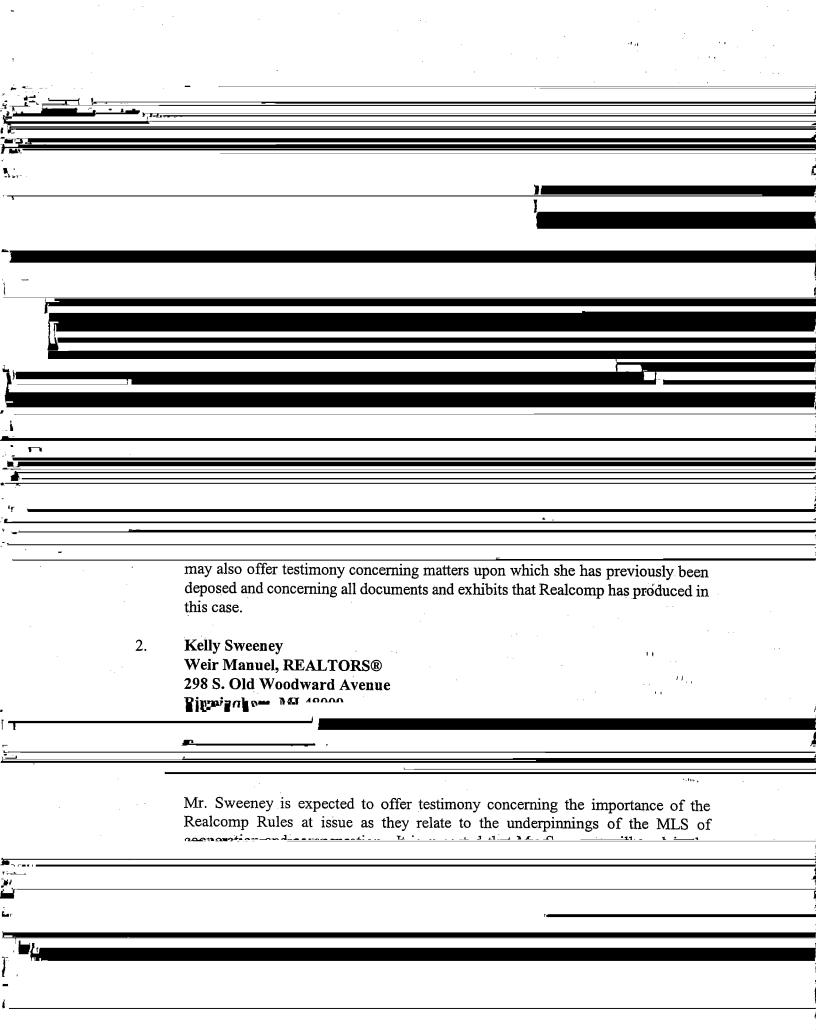
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	[PROPOSED] ORDER
	On May 18, 2007, Complaint Counsel moved in limine to limit the trial and deposition
	testimony of Robert Glesson Douglas Hardy Douglas Whitehouse and any other Respondent
-	
- x_	

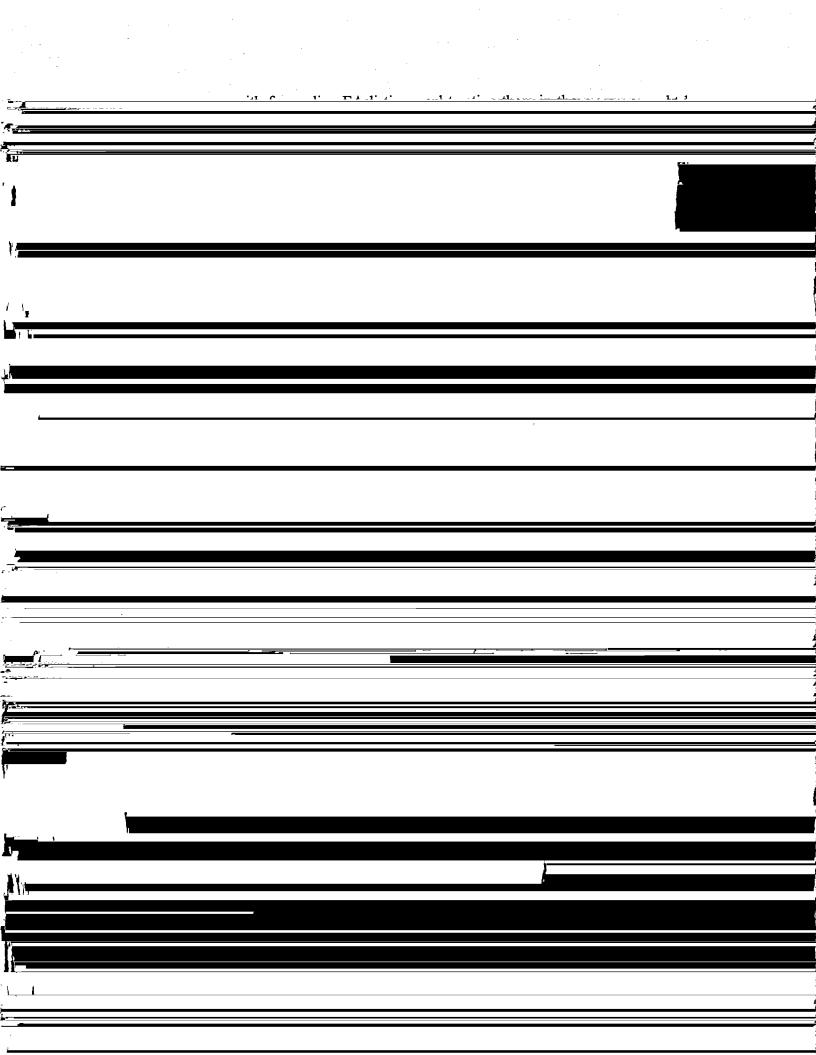
<u>CERTIFICATE OF SERVICE</u>

This is to contife that on Mary 10 2007 I amound a course of the attached Committee
r
Counsel's Motion in Limine to Bar Lay Opinion Testimony Regarding Supposed Justifications for Realcomp's Rules and Policies, the Memorandum in Support of its Motion <i>In Limine</i> , a Declaration of Peggy Bayer Femenella and Exhibits to be served upon the following persons:
for Realcomp's Rules and Policies, the Memorandum in Support of its Motion In Limine, a
for Realcomp's Rules and Policies, the Memorandum in Support of its Motion In Limine, a Declaration of Peggy Bayer Femenella and Exhibits to be served upon the following persons:
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for Realcomp's Rules and Policies, the Memorandum in Support of its Motion In Limine, a Declaration of Peggy Bayer Femenella and Exhibits to be served upon the following persons:

UNITED STATES OF AMERICA FEDERAL TRADE COMMISSION

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	Respondent.		•	
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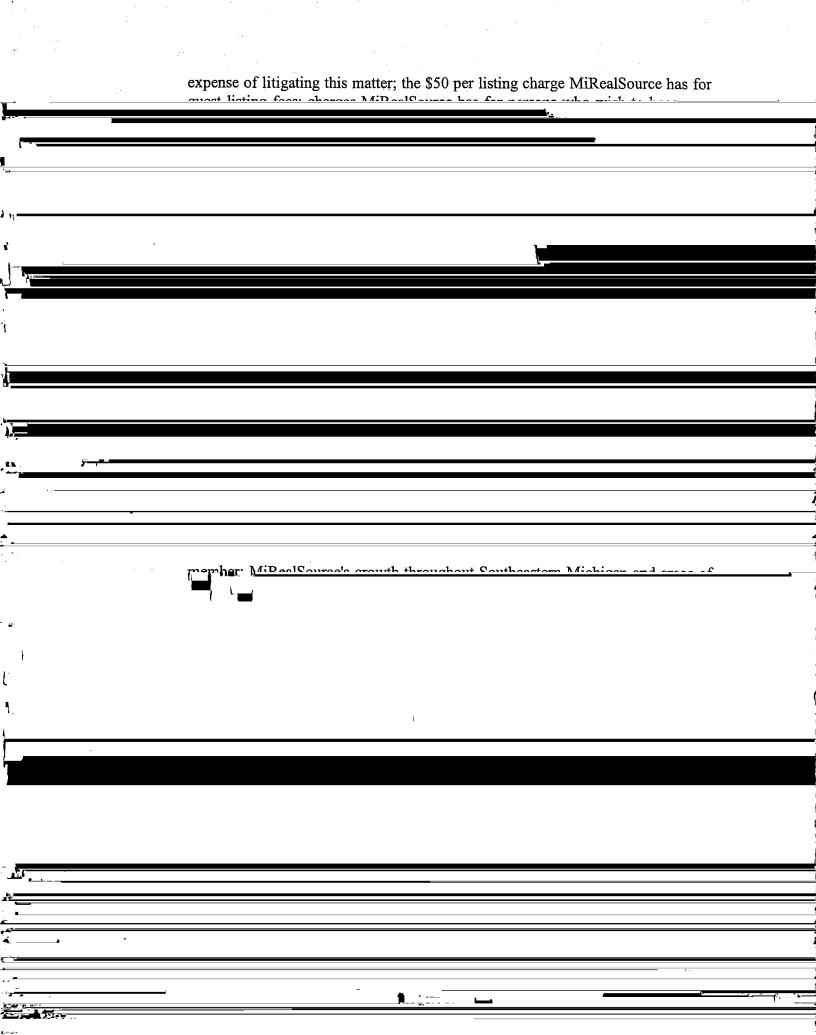


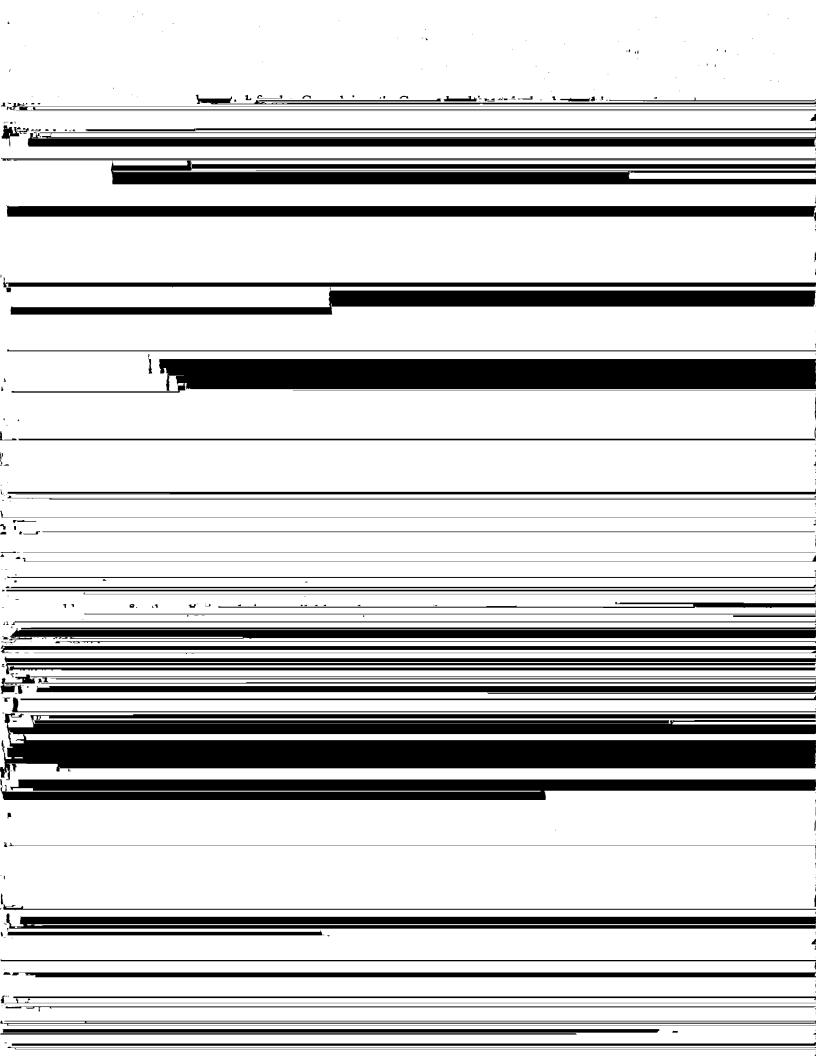


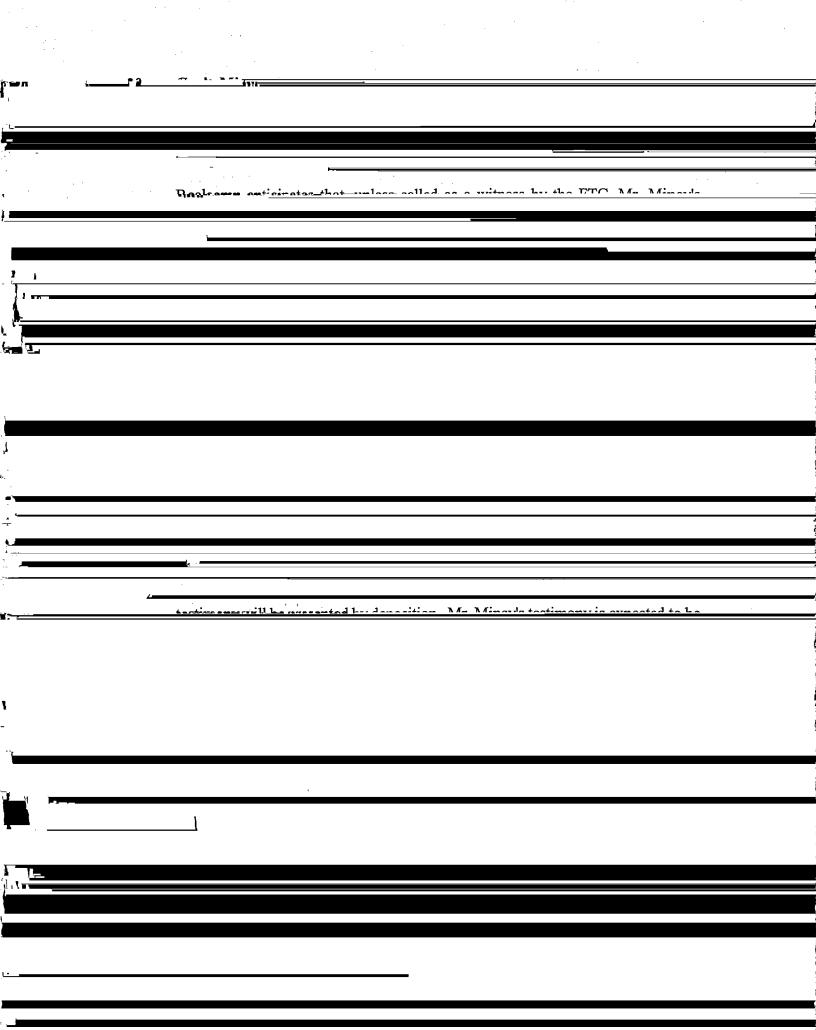
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7. Walt Baczkowski

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CERTIFICATE OF SERVICE

This is to certify that on May 15, 2007, I caused a copproposed Witness List to be served upon the following per	
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Chief Administrative Law Judge Federal Trade Commission 600 Pennsylvania Ave., NW Washington, DC 20580

Lorri A Rosier

OFFICIAL TRANSCRIPT PROCEEDING FEDERAL TRADE COMMISSION MATTER NO. D09320 REALCOMP, II, LTD. TITLE **PLACE** FOSTER SWIFT COLLINS & SMITH, P.C. 32300 NORTHWESTERN HIGHWAY, SUITE 2300 FARMINGTON HILLS, MICHIGAN

FEBRUARY 23, 2007

1 THROUGH 127

DATE

PAGES

without board of governors' approval; right? 2 A. Correct. Now looking at CX 91, if you turn to the third page Q. 3 you'll see at the top there's an item entitled 4 5 MLS/User Committee. 6 Do you see that? 7 Α. Yes. 8 Q. Okay. And you see there was a motion made, seconded 9 and carried to approve a recommendation for the MLS/User Committee to add three new feature options 10 under compensation arrangements for all property 11 12 types. 14 Α. Yes, I do. agency listings, limited service listings and MLS 16

19 Q. And it reads below that: It was further agreed that

entry only listings; is that right?

17

- discussed at this meeting regarding the agreement that
- 2 these listings would not be sent to the real estate

Taternot advertisend

5 at the meeting?

- 6 Q. Well, if you look at the second page, it lists you as
- 7 present I believe.
- 8 A. Yes, I was present. I don't remember.
- 9 Q. So you don't remember any of the discussion about this

- 1 A. No, I don't.
- Q. If you look at the second page, you see there's an
- 3 item that says Update on Limited Service and MLS Entry
- 4 Only Listings.
- 5 Do you see that?
- 6 A. Yes, I do.

Was made seconded and carried to cotablish con-

- 9 search requirements on RealcompOnline in order to
- include MLS only and/or limited service listings in
- 11 the basic search.
- Do you see that?

14 Q. And then another motion was made, seconded and carried

- to exclude MLS only and limited service listings from
- all data extracts to the Internet real estate Web
- 17 sites publishing Realcomp data.
- 19 A. Yes, I do.

- 1 Q. So you can't tell me today why it was these motions
- were passed?
- 3 A. No.
- 4 Q. You can't tell me today what are the reasons that the
- 5 board of governors had at the time for passing these
- 6 motions?
- 7 A. No.
- 8 Q. Do you remember any problems that were -- Realcomp was
- 9 facing back in 2001 because of limited service and MLS
- 10 entry only listings?
- 11 A. No, I really don't.
- 12 Q. Mr. Gleason, you're aware that the Federal Trade
- 13 Commission's suit against Realcomp involves one set of
- 14 rules which exclude anything other than exclusive
- right-to-sell listings on the push from Realcomp of
- 16 its listings out to Internet sites such as REALTOR.com
- 17 and onto the IDX feed; right?
- 18 A. Yes.
- 19 Q. And you've been on the board of governors now as a
- 20 primary governor since 2004; right?
- 21 A. Yes.
- 22 Q. Can you tell me of any discussions during that time
- 73 that woulded with the hoard of commons according

2 here.

3 0, Okay, So the last several meetings in that in some

- 4 A. Well, this year.
- 5 Q. Okay. It was 2006 and 2007?
- 6 A. Yeah. I can't remember how far back in 2006, but it
- 7 started in 2006.
- 8 Q. Okay. So prior to 2006, and prior to the FTC's
- 9 investigation into Realcomp, do you remember any
- discussions with the Realcomp board of governors about
- 11 those rules?
- 12 A. No.
- 13. O Since the investigation did too them because

it was. I mean it was general conversation amongst a

3 Q. And was there anybody from the -- in those

4 conversations that said well, back in 2001 we were

5 having this big problem with limited service and MLS

7 address?

8 A. No.

9 Q. Okay. So what were the reasons then discussed within

the board of governors for the rules that prevent

anything other than exclusive right-to-sell listings

12 to go to Internet Web sites?

- 1 A. Yes.
- 2 Q. Okay. Tell me about it. Give me the details. When
- 3 did it happen, who was involved?
- 4 A. Where a buyer went around an exclusive agency
- 5 contract?
- 6 Q. Yes.
- 7 A. Is that what your question is?
- 8 Q. The seller is listing under an EA contract.
- 9 A. No, the seller is not listing under an EA contract. I
- 10 apologize, this was a new construction that was
- 11 listed.

1--

- 12 Q. So I want any examples of a listing under an EA
- 13 contract in which there was a procuring cause dispute

A homen the himse point around the ex-

- agency contract? Not that I know of, no.
- 17 0 . Dut won our thin in the problem with muthing the

- 1 MR. MANDEL: I think he's asking as far as
- 2 what rules, Sean?
- 3 BY MR. GATES:
- 4 Q. The Web site policy rules that we've been discussing,
- 5 A. My understanding is that what we just talked about as
- far as Realcomp's policy. Now you're asking me what
- 7 NAR's policy is?
- 8 Q. Yes.
- 9 A. My understanding I think is that they do include
- 10 __exclusive agencies. That's why we're going against
- 11 NAR.
- 12 Q. Right, okay. I got you.
- 13 But do you know whether or not other MLSs
- 3.4 Legent, Sp. Alegentaria graft Andrew The Printer and American

- 15 sites?
- 16 A. Yes, they have.
- 17 Q. They have, okay. And how do you know that?

- the FTC got involved in this area?
- 2 A. I didn't know.
- 3 Oh. you didn't know that? You don't know one way or
- 4 the other?
- 5 A. I don't know one way or the other.
- 6 Q. Okay. Do you know of any MLS that's experienced
- 7 problems because of mublishing Electric much

- 8 sites?
- 9 A. No. I don't know one way or the other
- 10 Q. Okay. So when you, Realcomp, decided to maintain your
- stance on your Web site policies, you didn't look at
- 12 whether -- what other MLSs across the country were
- 13 doing?
- 14 A. I did not personally, no.
- 15 O. Do vou know whether or not the hoard of governors_did?

- 17 Q. Some of them did, and what did they report to you?
- 18 A. As far as what their policies were?

ATTORNEY COPY

OFFICIAL TRANSCRIPT PROCEEDING

FEDERAL TRADE COMMISSION

MATTER NO. I

D09320

TITLE

REALCOMP, II, LTD.

PLACE

FOSTER SWIFT COLLINS & SMITH, P.C.

32300 NORTHWESTERN HIGHWAY, SUITE 2300

FARMINGTON HILLS, MICHIGAN

DATE

FEBRUARY 21, 2007

PAGES

1 THROUGH 142

TESTIMONY OF DOUGLAS HARDY

CONTAINS RESTRICTED AND CONFIDENTIAL PORTIONS

FOR THE RECORD, INC. 10760 DEMARR ROAD WHITE PLAINS, MD 20695

(301)870-8025

- 1 Q. Okay.
- 2 A. It's just their first letters abbreviated.
- 3 Q. So it's NOCBOR?
- 5 Q. Is that N-O-C-B-O-R?
- 6 A. Yes, sir.
- 7 O Do wan have any positions of Mognon

Abelletin

- 10 Q. Have you had any positions at NOCBOR prior to 2007?
- 11 A. No, sir.
- 12 Q. What other boards are you a member of, if any?
- 13 A. I think no other boards.
- 14 Q. Does your company or your offices have to be members
- of the different boards?
- 16 A. Yes.

1 A. That's my impression. That's my understanding, 2 absolutely.

V Contrar pountito mon al mondir pario anno de apage - Or

- 5 percent of those listings.
- 6 A. It would -- it's a cost savings for the agents
- 7 Q. What about other MLSs outside of the Realcomp area, in
- 8____<u>other</u> counties?
- 9 A. No, sir.
- 10 Q. And is there a reason why your offices haven't joined
- 11 some of those other MLSs?
- 12 A. I don't think I have any interaction with areas
- selling houses outside of our areas.
- 14 Q. Okay. And why don't you tell me which areas your
- 15 Century 21 Today covers

- What about Sotheby's, your Sotheby's franchise, you Q.
- 2 have a hundred agents there, what geographic areas do
- 3 they list houses in?

- Q. And you said that the Sotheby's office is also a
- member of MI Real Source?
- 8 Q. Can you tell me why that is?
- When we bought them in May 1st __in May of 2006
- were a member of MI Real Source and I didn't want -- I 10
- don't want to change things too fast, so I just left 11
- 12 it in place.
- 13 Q. Would it be a cost savings to you to terminate the
- Sotheby's office's membership in MI Real Source? 14
- 15 A. Not to the company, no.
- 16 Q. That --
- 17 A. To the agents it would be a cost savings.

2 on any other websites? There's so many places our listings go, I don't know 3 A. 4 if I could actually give you a comprehensive list.' 5 Those for sure are the significant sites. 6 Q. Let me give you what's been marked previously as CX 7 77, and just tell me whether you, if you know, whether or not you market -- Century 21 Today markets any of 8 iteliations on our of those websites 10 Α. I do not know. I think the only way they would get there if it was part of IDX, but --11 12 Q. Do you recognize any of these websites? FSBO Monster is a pretty interesting website, but 13 Α. 14 there's not one I recognize that I've actually spent

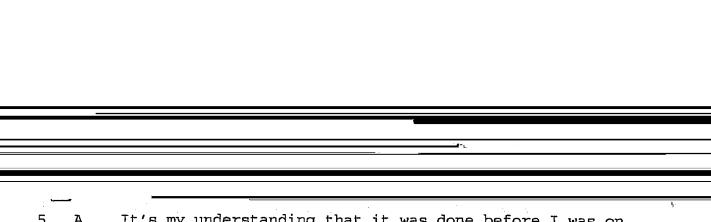
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meeting, the Realcomp Board of Governors meeting at



- 5 A. It's my understanding that it was done before I was on
- 6 the board.
- 7 Q. Okay. So it was done before you were on the board and

	1 0,	So you don't know from your discussions from any of
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·	3	that rule was put in place?
	4 A.	No, sir.
	5 N	No work have an understanding of from any source what
	· <u> </u>	
		_
	- 6	the purpose of the rule is?
	7 A.	You mean in today's terms or at the time it was
;	8	adopted?
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purpose of the rule is?

No, sir.

11

12

A.

2 adventure, you're talking about the Federal Trade Commissions case, investigation and case against 3 4 Realcomp? 5 Yes. A. 6 Q. So prior to that time, prior to the FTC investigation ! and case against Realcomp, you didn't have any 7 understanding whatsoever what the purpose of the rule 9 was?

-]] ____ So when was it that you first knew shout the mules
- 12 A. I think I first became aware of the rule when I was --
- understood we were being investigated and this was one
- of the issues.
- 15 Q. So at that time you investigated the rule?
- 16 A. Investigating in the sense that I asked what is the
- 17 mile

2 investigation of Realcomp. I truly don't recall. You don't recall what year that was? 3 Q. Α. Don't tell my wife I can't remember our anniversary 5 date. That's really restricted of anything. You know, I don't - whenever it hanconed you know it's. 7 kind of been an evolving process. So whenever the

And then when you say you investigated or found out

about the rule, other than asking, well, other than

conversations with Mr. Lasher, how did you find out

9

10

11

12

Q.

made us aware of it.

shout the rule and its nurnose?

- That's your understanding of the purpose of the rule, 1 Q.
- right?
- Α. It's just my understanding of the rule. I don't
- know -- I can't speak to where it came from or the
- real goal behind it; but in my investigating, you
- 6 know, my summary is I don't think it's in the best
- interest of the Realcomp to put two parties together

- 9 Q. You understand that --
- 10 I didn't write on this one.
- Good job. 11 Q.
- 12 You understand that the Federal Trade
- 13 Commission is also challenging what we call the search
- 14 function policy?
- Yes, sir. 15 Α.

- 17 same page is that under the default search in the

- 1 Board of Governors adopted that rule originally,
- 2 right?
- 3 A. No, but I'll ramble ultimately at some time about it.

- 5 was adopted at first?
- 6 A. No, sir.
- 7 Q. Let me give you a document already marked as CX 166.
- 8 CX 166 --

- 10 Q. Is the minutes of a meeting from August 22nd, 2003 of
- 11 the Board of Governors?
- 12 A. Correct.
- 13 0 Okan And von mere lieted of Blevort Remainment
- member of the Board of Governors at this time and
- present at this meeting?

7 i	1		were to elect those.	
·	7	<u></u>	Okay Now let (a back up for a second _Fach lie	o) Stino
_		•		
-	<u> </u>		within the Realcomp MIS is identified by listing	
	₹.		BELLIN LUE ASSICUME MIS 16 JUNE 11164 MG 1464 MG	rima
	-			
		<u> </u>	, - 	
 :				~
	4		correct?	O Company
	5	A.	Correct.	H_{ij}
	6	Q.	When you pull up a detailed listing, the listing	type".
•	7		is right there at the top, right?	
••	<u>.</u>	7	T.1-14	· · ·
		1,		
		<u>. </u>		
	0	0	So that when you look at the lighting type that/g	right
	9	0	So that when vou look at the listing type that's	riaht.
	-	0.		
,	10	0,	there at the top of a detailed listing, that info	
,	-	0.		—— → ,—
,	10	0	there at the top of a detailed listing, that info	—— → ,—
	10	0.	there at the top of a detailed listing, that info	—— → ,—
	10	0.	there at the top of a detailed listing, that info	—— → ,—
	10	0.	there at the top of a detailed listing, that info	
	10	0,	there at the top of a detailed listing, that info	
	10	0.	there at the top of a detailed listing, that info	

So you said that the reason for the default search is

14

Q.

i - }	1	search fun	ction policy?			
	2 A.	No.			en e	
• .	3 Q.	So you can	't tell me wh	y it is that	Realcomp has a	
·	4 ·	search fun	ction policy.	other than y	our deduction f	or
•.	5	reasons?				, 1 e
	,		• X	•	· · · · · · · · · · · · · · · · · · ·	- r
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<u>-</u>						
·	·			*		
· · ·	9	going to d	irectly call	you.	• •	**
	· <u> </u>					

2 the next meeting if they wanted to, correct? 3 Α. Sure. Q. So for right now it's your viewpoint that you're not 5 going to make that type of motion, not going to change 6 those rules, right? 7 I've had the issue prior to this process has never A. even really come up and been discussed much. 9 you know, I have a number of agents I represent 10 personally as a broker and a number of that I talk to 11 in the industry and I have never had it come to me as 12 à concern. 13 Q. Let's back up in your personal experience. You said 14 you've talked about these different problems that 15 agents run into when they're dealing with limited service listings, but you haven't personally been the 16 17 selling agent or the cooperative broker in any of 18 those transactions, right? 19 A. I think my selling days predated this business model.

office every day, talk to my agents, how their

with deals. Every day. 3 And is it your testimony that those issues occur every Q. single time there's an EA listing? 5 No, I don't think so. I think the issues are more I get frustrated concerns from agents on dealing with certain types of listings and it's far more common on) <u>-) -</u>

OFFICIAL TRANSCRIPT PROCEEDING

FEDERAL TRADE COMMISSION

MATTER NO. D09320

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PLACE

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FARMINGTON HILLS, MICHIGAN

DATE

FEBRUARY 22, 2007

PAGES

1 THROUGH 154

Michigan area. 2 Does Chamberlain Realtors still exist? 3 Q. Chamberlain and then it was Chamberlain, Prudential, τ_{total} 5 Prudential, Chamberlain, Steel and now it is Prudential Cranbrook Realtors.

- 9 you have?
- 10 A. Probably about 45.
- 11 Q. And how many offices?
- 12 A. One.
- 13 O. And where's the office?

- analysis?
- 2 A. Yeah.
- 3 Q. Okay. Thank you.

REPORTED TO THE STATE OF THE ST

6 12:50 p.m.

7 BY MR. GATES:

R_O, CX 327 is a <u>letter from Karen Kage to vou dated</u>

- 9 September 18th, 2006, right?
- 10 A. Yes, it is.
- 11 Q. And in the middle of the page it talks about
- Realcomp's MLS rules and regulations that are subject
- to the Federal Trade Commission's litigation, right?
- 14 A. Yep.
- 15 Q. And it talks about the first bullet point is exclusive
- agency, limited service, MLS entry only listings will
- not be distributed to any real estate Internet
- 18 advertising sites, right?
- 19 A. Correct.

basis. 1 2 Α. Correct. So those two rules have to do with the distribution of listings on to the Internet, right? Correct. Α. 5 Now, you weren't on the Board of Governors when 6 Q. Realcomp implemented these two rules, were you? 7 No. I was not. Do you know when they implemented these two rules? 9 Q. A. No. 10 When did you first become aware of the two rules? 11 Q. T couldn't dive von a date. I really --Did you know about them before you got the letter from Q. 13 Karen Kage? 14 I would say so. 15 Α. How long hefore that? I honestly don't know. 17 Α. Did tres boar about than in 20052

- 19 A. I would say so but I don't remember a date.
- 20 Q. Did the Realcomp Board of Governors consult you at all
- 21 regarding passing these rules?

<u> </u>	1 Δ.	No I don't have any information on why they made the
• 7 Ev -	_	
	- -	
-	<u> </u>	
	2	decision. I have my own opinion but
	3 C=	You have your opinion but you don't know exactly why
	•	
	4	they did?
	5 A.	No, I do not.
- x_	£, <u>0</u>	On the third bullet point it savs. additionally. the
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Con		
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	8	Online automatically defaults to exclusive
	•	right-to-sell and unknown.
•	9	
	- 1	m . J Land Lake to be one of the
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<u>, , , , , , , , , , , , , , , , , , , </u>		
Ġ,		

rules that's subject to the FTC litigation, right?

And you were not on the Realcomp Board of Governors

11

12

13

A.

Q.

Yes.

Okas: So going back in your experience, you know.

- 5 Q. Yes.
- 6 A. I can't. I can only tell you secondhand.
- 7 Q. So you only have secondhand knowledge of any problems
- 8 that the publication of exclusive agency listings on
- 9 to Internet sites causes?
- 10 A. Correct. I have not experienced that myself in my
- 11 sale.
- 72 O The secondhand knowledge is what, you've heard from

- 1 A. No, I can't.
- 2 Q. Can you tell me how many?
- 3 A. No.
- 4 Q. In person?

- 6 rooms.
- 7 Q. Okay. So, Mr. Whitehouse, you produced to us a large

- 9 rooms, right?
- 10 A. From Internet reading, yes.
- 11 Q. And so we would expect to find those types of

7 4 4 4 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5	1	Q.	So the only thing that you can tell us about then is
	^		
1.7	<u>.</u> ~- ⊾		
1	· ,		
1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-			
,	3	Α.	Correct.
* .			
The second secon	7-11 14.		Q.
, 45-			
: 			
1	_		11
<u> </u>	· }		
		-	
·	•	<u>.</u>	
	5		complaints, right?
	6	Α.	Correct.
<u> </u>	<u>7.</u>	Ω.	And von don't have any names of any agents who have
-		×	
1		-	- de-control of the control of the c
,			
7			
	9	Α.	No, I do not. Could probably go out and get them.
41	<u></u>	<u> </u>	No. 3.7 here winds to 3.1 here to 5.
<u>'k</u>			